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ANNUAL REPORT OF THE ADMINISTRATOR FOR 1992 AND PROGRAMME-LEVEL ACTIVITIES

Regional economic integration

Report of the Administrator

SUMMARY

Support for regional economic integration has been a major feature of UNDP regional programme activities in all regions. In the past, support was given in areas such as the establishment of common standards and the creation of regional networks, but the most visible motor of regional economic integration has been the development of trade and support for the creation of institutions aimed at promoting the expansion of intra-regional trade. The experience of regional integration varies greatly from region to region. Future activities will not only need to incorporate the lessons of past experience but will have to take account of the changed international context, involving the widespread adoption of more liberal economic policies, the globalization of markets and the creation of trading blocs such as the North American Free Trade Area. The emphasis for the future may shift towards the promotion of regional economic cooperation rather than regional economic integration.

I. INTRODUCTION

1. In decision 91/10 of 25 June 1991, the Governing Council reiterated "the importance of regional economic integration for promoting economic growth and development, as well as the importance of support for regional economic integration from developed countries and international organizations". The Council urged the Administrator to "take the necessary measures for the conduct of specific activities in support of regional economic integration processes", and requested a report on the implementation of the decision to be presented at the fortieth session of the Council in 1993.

2. The present report is submitted in response to decision 91/10. The paper will indicate, on a region-by-region basis, the strategy pursued by UNDP in support of regional economic integration during the fourth cycle, the lessons learned from this experience, and the approach for the fifth cycle. A final section will draw some general lessons for the process of regional economic integration.

II. AFRICA

3. In the Africa region, UNDP approved and funded 51 regional and subregional integration projects during the fourth programming cycle (1987-1991), at a total cost of $38,808,629. The main beneficiaries were the Organization of African Unity, the Preferential Trade Area, the Southern African Development Coordinating Conference, the Indian Ocean Commission, the Economic Community of Central African States, the Economic Community of the Great Lakes Countries, the Economic Community of West African States, and the West African Economic Community.

4. An evaluation was undertaken of UNDP assistance to African Intergovernmental Organizations (IGOs) during the fourth cycle. Among the main findings of the report were that the resources allocated to subregional and regional integration institutions were far from adequate and were too thinly spread throughout the various subregions to have a significant impact. There was also found to be an absence of appropriate institutional, technical and administrative capacity, and meagre resources on the part of the IGOs themselves, as well as a lack of commitment on the part of the member States of the IGOs.

5. Thus, the evaluation highlighted a variety of issues which had impeded progress in economic integration within the Africa region during the fourth cycle. First, the inadequacy of resources allocated by UNDP was emphasized, and the evaluation recommended that UNDP support the strengthening and reinforcement of subregional and regional institutional capacity with a greatly increased level of funding during the fifth cycle.

6. Secondly, the IGOs themselves needed support for capacity strengthening on a larger scale and in a longer time perspective. The evaluation recommended greater decentralization of regional project administration and management towards the region or subregions. IGOs were also urged to adopt

internationally accepted standards of management, administration, control and accountability in the allocation and utilization of funds.

7. Thirdly, there was thought to be a need for a rationalization of the objectives, functions and activities of IGOs to avoid overlap, and a streamlining of their structures and organization.

8. Fourthly, member Governments' own commitment to IGOs and hence to the process of economic integration had not always been adequate. Member Governments were urged by the evaluation to make regular payments of assessed contributions to IGOs, to implement decisions agreed upon by IGO governing bodies, and to ensure the coordination, harmonization and conciliation of national, regional and subregional policies, plans and programmes, to avoid overlap of activities and waste of scarce resources.

9. On the basis of the experience of the fourth cycle intercountry programme, it was felt that UNDP should involve IGOs more concretely, and on a longer-term and coordinated basis, in formulating the fifth intercountry programme. Furthermore, since a number of African IGOs had developed the capacity to execute UNDP projects on a subregional basis, it was felt that more should be given the opportunity to do so. During the process of formulation, three subregional consultative meetings took place with the major economic integration IGOs, and an assessment was undertaken of the capacity of selected IGOs to determine their ability to execute UNDP-funded projects during the fifth cycle.

10. Regional economic cooperation and integration is one of three priority areas of concentration of the fifth cycle programme and three objectives will be sought by UNDP activities in this area: rationalization and harmonization of IGOs; establishment of the African Economic Community; and assistance to key sectors with intrinsic integrative characteristics.

11. The necessity of rationalization and harmonization of IGOs was stressed by the evaluations of both UNDP support for IGOs and of the fourth intercountry programme as a whole. There are currently more than 200 African organizations involved in regional cooperation competing for the scarce financial, manpower and administrative resources. The constraints which they suffer and the inevitable dispersion of effort have impeded the coordination and harmonization of national development efforts and the promotion of interregional trade.

12. A number of initiatives have been taken in the past in an attempt to rationalize these IGOs, without much success. The fifth intercountry programme will support activities such as studies and evaluation exercises, preparation of proposals for rationalization, and backstopping of consultative arrangements among member States.

13. Support for the establishment of the African Economic Community (AEC) will form a major area of focus for UNDP activities in this area, since the Treaty Establishing the African Economic Community was signed by African Heads of State and Government in June 1991. The intercountry programme will assist in strengthening the administrative machinery for the establishment of the AEC, and in the design of protocols to operationalize the Treaty. It will also

support initiatives from member countries which are geared towards the realization of the Community.

14. Assistance to key sectors with intrinsic integration characteristics will include support for agriculture and food security, trade and finance, transport and communications, industrial development and science and technology.

15. By the end of the fifth cycle, it is expected that there will be a significant reduction in the number of IGOs, a better harmonization of their activities and therefore increased effectiveness in addressing their mandates; considerable progress in operationalizing the Treaty Establishing the African Economic Community; and a higher level of intra-African cooperation in the key integrative sectors identified.

III. LATIN AMERICA AND THE CARIBBEAN

16. In the Latin America and Caribbean region, economic integration was a central objective in the regional programme and the country programme of the fourth cycle on the premise that joint efforts are essential to confront the internal and external problems of the region and to reaffirm its position in the global context. It was also recognized that integration efforts should be flexible enough to allow a subregional focus or encourage coordination among countries at similar levels of development, for example middle-income countries.

17. The multiplicity of institutions dedicated to integration has been seen as evidence of growing regional cohesion, but there has also been concern with the problem of institutional fragmentation, and with the fact that, as in the Africa region discussed above, many institutions have had to operate with inadequate resources. Furthermore, and perhaps as a result of this fragmentation, there has been a tendency to approach regional coordination at the highest policy level in an ad hoc manner.

18. Subregional activities during the fourth cycle programme were focused primarily on the English-speaking Caribbean, Central America, the Andean Pact countries, the Mercosur area, the River Plate area, and the Treaty of Amazonian Cooperation countries. The secretariat of the Caribbean Community (CARICOM) was allocated a set quota of the regional programme resources during the fourth cycle, with an emphasis on its utilization for human resource development and for themes of concern to the region as a whole, such as trade, transport and tourism.

19. Although the CARICOM/UNDP programme was found to be successful by the mid-term review of the fourth cycle programme, certain concerns were expressed. Most importantly, it was pointed out that the programme had encompassed only the English-speaking countries of the Caribbean, and that there seemed to have been only limited participation of Caribbean countries in broader, region-wide projects, especially in the fields of intra-regional and external trade, science and technology, agriculture and fisheries, transport, tourism and telecommunications. Other areas of common concern also provide potential for more intensive region-wide activities, such as macroeconomic policy issues,

external debt management and negotiation, and the social impact of structural adjustment measures.

20. Aside from CARICOM, the main partners in UNDP support for the Latin American and Caribbean integration and cooperation process have been the Economic Commission for Latin America and the Caribbean (ECLAC), SELA (Latin American Economic System), ALADI (Latin American Integration Association), JUNAC (Cartagena Agreement of Andean Countries) and, more recently, the Amazonian Pact. The mid-term review recommended that the regional programme should continue to operate with existing institutions as instruments of regional development, cooperation and integration, and that UNDP should encourage efforts by those institutions to define their distinct but complementary functions in the regional integration process. The mid-term review also stressed the importance of the regional programme serving as a dynamic instrument to respond to new high-level political initiatives such as presidential summits and emerging issues such as the environment.

21. The mid-term review of the fourth cycle regional programme was discussed at a collective consultation with the Governments of the region in Caracas in May 1990. Delegations from 23 countries and observers from 19 international, regional and subregional agencies affirmed that the priorities identified in the mid-term review should be the basis for regional action in the fifth cycle, especially integration and international economic relations.

22. In the fifth cycle, UNDP will support the further strengthening of the region's bargaining and negotiating capacities. The regional programme will facilitate the examination and follow-up to the General Agreement on Tariffs and Trade (GATT) Uruguay Round negotiations, including assistance in launching a Latin trade programme. Support will also be provided for a regional response to the development of a United States trade, debt and investment policy for the region in the context of the Enterprise for the Americas initiative. The development of methodologies for periodic assessment and evaluation of the integration process will also be given emphasis. Support for the Southern Cone subregion continues with assistance for the Mercosur process and for improved transport (e.g., the Parana-Paraguay waterway).

IV. ASIA AND THE PACIFIC

23. In recent years, the Asia-Pacific region has demonstrated a strong tendency towards greater regional economic cooperation and integration. This has been propelled in response to growing economic development requirements and also in recognition of emerging complementarities within the region and its larger role in the global economy. A number of factors such as reduction in political tensions, development of more market-based economies and an expanding democratic environment have given further stimulus to regional economic integration.

24. Taking advantage of this new impetus, UNDP, together with the Economic and Social Commission for Asia and the Pacific (ESCAP), the International Trade Centre (ITC) and the United Nations Conference on Trade and Development (UNCTAD), has been assisting countries of the region in their efforts towards strengthened economic cooperation and integration.

25. In the Asia and Pacific region, funding of regional projects in the area of trade and economic cooperation grew from $6.2 million in the third cycle to $14.4 million in the fourth cycle, a growth of 132 per cent. Despite a sharp reduction in the fifth cycle indicative planning figure (IPF), the level of funding will continue. Most activities during the fourth cycle were in the subsectors of trade in manufactures and services, regional, intra-regional and global trade policies. Within these subsectors, special attention was given to intra-regional trade expansion, foreign direct investment and private sector development, small and medium-scale enterprise development, emerging trade-related issues such as trade and the environment, and assistance to the economies in transition. In addition, transport and communications received a relatively large share of intercountry programme resources in the fourth cycle, accounting for 24 per cent of all fourth cycle intercountry programme resources.

26. The mid-term review of the fourth cycle intercountry programme stated that regional integration is the raison d'être of the entire programme, but also argued that it is a difficult and painstaking process. Results are often slow in coming and unspectacular when they arrive. However, the review noted that the late 1980s in the Asia and Pacific region had been among the most constructive years in the entire post-World War II era of developing country interdependence and that there was a growing recognition in the region that common solutions can be effectively applied to a range of problems that spread across political frontiers, in areas as diverse as the environment, marine resources, infrastructure, communications and international trade.

27. Support for regional integration in the fourth cycle has been provided to a large extent through existing subregional groupings such as the Association of South-East Asian Nations (ASEAN); to particular categories of countries such as the Pacific island developing countries or the least developed countries; or to groups of countries coming together under the auspices of particular projects.

28. The lessons learned from the experience of the fourth cycle were that the fourth intercountry programme was thought to have had too many small projects, and that, for greater and more sustainable impact, it would also have been necessary to encourage a stronger commitment on the part of participating countries, including commitments of resources.

29. In the fifth cycle, the intercountry programme is playing two sets of roles: supporting the process of integration in the region, mainly but not exclusively at the subregional level; and helping countries to address common needs. In playing these roles, the programme will focus on three major themes, one of which is economic management and reform. This component will include programmes in a variety of areas related to regional economic integration. Support will be provided to development and promotion of trade through four programmes focusing on trade policy, intra-regional trade, the role of small- and medium-scale enterprises in trade, and the role of intellectual property in trade. The programme in international trade policy will aim to enable policy makers and national agencies to recognize the new opportunities that are emerging at the global level for expansion of trade through changing international policy regimes and the consequential need for trade policy adjustment at the national level.

30. The programme on intra-regional trade development will build on the work undertaken in the fourth cycle, by strengthening capacities for intra-regional trading operations. Regional information networks will be developed, and capacities will be created at the national level to exploit intra-regional trading opportunities. In addition, support to small- and medium-scale enterprises aims at increasing their share of trade. Intellectual property has, since the GATT Uruguay Round, become increasingly important in trade policy, as have joint ventures, transfer of technology, and direct foreign investment, which are important to the growth and development of trade on a broad basis. A separate but related programme under the economic management and reform theme will aim to strengthen capacities to develop appropriate policies and exchange of information for direct foreign investment.

31. To meet the expressed needs of the recipient countries in Asia and the Pacific, UNDP programmes in economic management and reform envisage considerable use of technical cooperation among developing countries (TCDC) modalities, making good use of existing national and regional institutions and promoting networking among them. Asian governmental and non-governmental institutions, especially universities, research groups and commercial and manufacturing associations, have substantial experience available for sharing through technical cooperation. Several countries have active national TCDC programmes supported by UNDP and national funding sources. It is expected that short-term consultancies, training and some research activities will be funded and implemented through TCDC arrangements. Backstopping for TCDC as well as overall provision of services will, to a large extent, be provided by groups of United Nations specialized agencies operating in collaboration to achieve the goals and objectives of the programmes.

32. As in all of the regional programmes, part of the thematic focus on economic management and reform will consist of subregional activities in five distinct subregions: ASEAN, the Pacific island countries, South Asia, Northeast Asia and Indo-China. During the current cycle, special attention will continue to be given to the transition of formerly centrally planned economies towards trade liberalization and integration with the rest of the region.

V. ARAB STATES REGION

33. Economic integration was a high priority within the fourth cycle regional programme for the Arab States, with over 30 projects approved for a total of $27 million. Because of the disparities in the region in terms of population, per capita income and natural resource endowment, the evaluation of the third cycle programme had revealed some inherent weaknesses and implementation difficulties, particularly when projects were designed with open-ended objectives and when a large number of countries were involved. To address these difficulties, it was decided that resource allocation and project design in the fourth cycle should take place within a subregional context aiming at reinforcing economic integration.

34. Activities supporting economic integration started during the third cycle regional programme with assistance to the Maghreb countries, prior to the formal creation of the Arab Maghreb Union (AMU). UNDP provided the countries

of the Maghreb (Algeria, Libya, Mauritania, Morocco and Tunisia) with a much needed forum for joint in-depth examination of issues related to complementarity and integration (in informatics, trade, agriculture, industry, etc.).

35. This assistance laid the ground for a better understanding of common issues and the joint definition of priorities. For the fifth cycle, an additional $700,000 has been earmarked, to be matched by an equal amount of cost-sharing from the AMU secretariat. The umbrella project will focus on three areas which rank high in the secretariat's agenda: (a) institutional organization of the secretariat; (b) the establishment of an information system; and (c) a study of mechanisms of compensation for losses and damages resulting from the creation of a customs union.

36. UNDP is also funding (with 50 per cent cost-sharing from the European Community) the preparation by the African Development Bank of a feasibility study (due in March 1993) for the creation of a Maghreb International Bank, whose objective will be to promote the private sector in the Maghreb by providing various types of financing (long-term loans, equity participation and quasi equity). The Bank would also be instrumental in the process of economic integration.

37. Assistance to the Gulf Cooperation Council (including the net contributor countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates) was more of an advisory nature, in the form of short-term consultancies to assist the secretariat in the assessment of studies and reports prepared by private consulting firms, particularly in the area of trade.

38. In view of the existence of these subregional groupings, the regional programme was to be designed primarily to respond to the requirements of economic integration through these bodies. The establishment of subregional collaborative networks also proved to be highly successful and to generate more government commitment and involvement.

39. Concerning international trade as an element of integration, intra-Arab trade does not currently exceed 8 per cent of total Arab trade. Insufficient resources were allocated to this sector during the fourth cycle. Assistance was provided to (a) the Arab Trade Financing Programme for the building-up of an information core that will be developed into an on-line service network on intra-Arab trade decisions. Small financial contributions were also made to the interregional project "Network on Market News Service" and to the Uruguay Round to increase awareness of Arab decision/policy makers.

40. Because of the critical role it plays in economic integration, and in view of the changing global environment, trade emerged as another priority area during the mid-term review of the regional programme for Arab States (October 1990).

41. For this purpose, and in collaboration with UNCTAD/ITC, UNDP fielded an assessment/programming mission to a number of Arab countries and institutions. Five priority areas of cooperation have been identified that will be discussed during a trade seminar in April 1993 in Abu Dhabi: (a) strengthening of

subregional groupings; (b) integrated trade information network; (c) regional cooperation in the implementation of economic reforms; (d) human resource development in the field of trade policy and promotion; and (e) private sector cooperation. The seminar will include the participation of Arab chambers of commerce, the Arab Monetary Fund, UNCTAD/ITC and other regional institutions.

42. The regional programme has also supported IGOs as a major element of regional integration. In particular, the League of Arab States is considered as a natural partner in the UNDP regional programme for the Arab States. In addition to a large number of ad hoc activities jointly sponsored with the League of Arab States, UNDP has provided support to the League's secretariat for the development of its organizational structure, working methods and procedures, design of information systems, manpower development plans and personnel procedures. In addition, assistance was extended for the establishment of a network of information systems (ARISNET) through the Arab League Documentation and Information Network.

43. The recently created Centre for Environment and Development in the Arab Region and Europe (CEDARE), which is also receiving support from UNDP is expected to be the focus of environmental activities related to sustainable development in the Arab region and the Mediterranean basin. UNDP funding ($5.5 million) is complemented by a substantial contribution from the Arab Fund for Economic and Social Development ($5.6 million for an endowment fund).

VI. CENTRAL AND EASTERN EUROPE AND THE COMMONWEALTH OF INDEPENDENT STATES

44. The fourth cycle regional programme for Europe had no specific component aimed at the strengthening of regional economic integration. All of the countries of the region belonged to the strong integrated economic and trade system of the former Council for Mutual Economic Assistance (CMEA). However, during this cycle significant results were achieved in the fields of energy and the environment, transport and communications, and management consultancy sectors in terms of networking among countries of the region.

45. The fifth cycle regional programme for Europe does not include any significant change in terms of support to regional economic integration. After the disintegration of the CMEA, its former members are mainly concerned with the development of new trade flows and relations with other parts of the world. Central and Eastern European countries are seeking pan-European integration, and most would be willing to join the European Community.

46. The fifth cycle regional programme continues to focus on networking arrangements, increasingly involving joint networks of Central and Eastern European countries with West European countries, in sectors such as management development, privatization, transport and communications, and environmental management.

47. The United Nations Economic Commission for Europe continues to participate in the implementation of UNDP's regional projects in Europe, and close cooperation has also been developed with the Poland/Hungary Aid for the Reconstruction of the Economy (PHARE) and the technical assistance to the

Commonwealth of Independent States and Georgia (TACIS) programmes in order to strengthen the new solidarities in Europe.

VII. LESSONS OF EXPERIENCE AND ISSUES FOR THE FUTURE

48. The process of regional economic integration has been supported by UNDP as involving a broadly based set of activities. In the past, support was given in areas such as the establishment of common standards in the regions, for example in civil aviation and telecommunications. UNDP also assisted in the creation of research networks in areas such as agriculture. Nevertheless, the most visible motor of regional economic integration has been the development of trade and support for the creation of institutions needed to promote the expansion of intra-regional trade.

49. Most early efforts at regional integration were based on the European Economic Community model, and involved common external tariffs and regional import substitution. In many cases, the outcome was to divert rather than to create trade, and few schemes had the effects of promoting greater efficiency and growth. In many cases too, distributional conflicts arose, as members began to view themselves as net losers from integration.

50. More recent attempts at regional integration have concentrated on looser and less binding schemes, which seem to offer greater opportunities, especially in areas such as environmental protection, training and human capital formation, and institution-building.

51. Some of the positive elements of past experience at regional integration include joint efforts to deal with actual or perceived external threats or the production of public goods (education, research and development, infrastructure, environment) that would have been too costly for individual countries.

52. The experience of regional integration varies greatly from region to region. In the case of the Asia and Pacific region, intra-regional trade accounted in 1989 for 41 per cent of all trade of the region. Forty-nine per cent of the exports of the developing countries of the region were absorbed within the region, with developed and developing economies taking up 18 and 32 per cent respectively. The proportion of intra-regional export trade has been maintained since 1989. Because of the high proportion of intra-regional and intra-subregional trade already achieved within the region, some have argued that this should no longer be the major objective of economic cooperation within the region.

53. However, the Asia and Pacific region still has a long way to go before intra-regional trade reaches the levels prevailing in Europe, for example. In addition, the levels of intra-regional trade vary widely between countries and between subregions. It is mainly ASEAN and the East Asian countries that have experienced the boom, in contrast to the South Pacific, South Asia or Indo-China. Thus, the case for continued emphasis on regional integration remains strong.

54. In sub-Saharan Africa, although regional and subregional integration schemes have been adopted by all countries, and large numbers of IGOs have been established to support the process, intra-region and intra-subregion trade as a share of total trade is very small and has not increased significantly over time. Among the reasons given for this are that the structural characteristics of the economies are not conducive to intra-regional trade (because of similarities in major export commodities and therefore limited trade potential), trade promotion and liberalization measures have not been properly implemented and there is a lack of information on trade potential. In addition, there is a very uneven distribution of the costs and benefits of integration arising from economic differences among partner countries.

55. Perhaps regional integration activities need to focus more on support for African producers to compete in intra-regional and world markets. Trade liberalization and promotion measures alone will not bring about intra-African trade expansion, but should be complemented with dynamic trade information and promotion programmes, with participation by the business community. Since structural characteristics of economies and economic differences between countries can change only gradually, regional integration is at best a medium-term objective.

56. Furthermore, the increasing adoption of economic reforms and more liberal international trade policies in the 1980s have changed the context of economic integration processes. This is particularly important in Latin America, where unilateral adoption of liberalization has combined with a greater emphasis on countries' relationships with the multilateral trading system. Thus the process of regional economic integration in all regions now needs to be more closely linked with changes at the multilateral level.

57. The direction of economic growth and cooperation in trade and finance will have to take account of the globalization of markets, and of global events such as GATT, European integration and the North American Free Trade Area (NAFTA). These will have a major impact on trade in developing countries, and therefore developing countries will need to keep abreast of the changing conditions of trade and the impact of these developments on channels and techniques for export marketing.

58. The emphasis for the future may shift towards the promotion of regional economic cooperation rather than regional economic integration. Areas of potential benefit from future economic cooperation include the following: environmental management; science and technology development and transfer; and coordination and cooperation at the sectoral level on policies and institutions in the areas of food, agriculture and forestry, industry, minerals and energy, trade, transport and communications.

59. The emerging priorities of UNDP, as described above, are consistent with these changes at the global level, and are giving emphasis to cooperation in those areas with maximum chance of success as well as to areas that link efforts at the regional level with broader changes in global trading arrangements.